

BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Complia	nce								Λ	/lay 9, 2019
AGENDA ITEM:	V \	w x		u			V	V		
Review		F	Review	/ + Actio	n		Actio	n	X	Discussion
This	is a repo	ort requi	ired by	Board po	olicy.					
PRESENTERS:	uz	u								
PURPOSE & KEY	POINTS	S								
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External Auditor	Reviev	V								
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Summary of Aud	lit and N	lon-Au	dit Ser	vices ar	id Fees					
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BACKGROUND IN	NFORM	ATION								
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UNIVERSITY OF MINNESOTA BOARD OF REGENTS AUDIT COMMITTEE MAY 9, 2019

EXTERNAL AUDITOR REVIEW AND SUMMARY OF EXTERNAL AUDITOR RELATIONSHIPS AND SERVICES PROVIDED

Background

The Board of Regents is responsible for engaging and overseeing the University's independent external auditors, for reviewing the work of the auditor, and periodically reviewing the fees paid to the audit firm. Effective governance practice recommends that the Audit Committee of the Board should conduct such a review at least annually. The Audit Committee conducted its last review of audit services and fees in May 2018.

The Controller's Office presents the information below and on the accompanying schedules for the Audit Committee's 2019 review of audit, audit related, and non-audit services fees paid external audit firms including. Deloitte & Touche, LLP (Deloitte), the University's independent external auditor. Also included is management's assessment of Deloitte's performance for the FY 2018 engagements.

<u>Section I - Annual Review of External Auditor Relationship and Performance</u>

University management and the Deloitte engagement management team

Both the University team and the Deloitte team agree that we need to continue to focus on the improvements that have been made including:

Continued focus on identifying and completing testing of items earlier in the audit process, specifically as it relates to capital assets,

Continue to ensure communications between both teams and all audits are consistent and timely.

Review processes to ensure audit requests and receipt of documentation is efficient to both parties.

Review of Fees Paid to Deloitte & Touche, LLP

The accompanying schedule presents a summary of fees paid to Deloitte for the various FY 2018 audits and other services. The top portion of the fee schedule represents fees paid for the University's annual institutional audits and audit-related engagements. The contract amounts reported on the schedule are consistent with the amounts agreed to in the fiscal 2018 engagement letters and the firm's fixed price contract for FY 2018. The total audit fees paid to Deloitte for FY 2018 were \$1,810

UNIVERSITY OF MINNESOTA BOARD OF REGENTS AUDIT COMMITTEE MAY 9, 2019

Schedule I - Fees Paid To Deloitte & Touche, LLP FY 2018

UNIVERSITY OF MINNESOTA BOARD OF REGENTS AUDIT COMMITTEE MAY 9, 2019

Schedule II -

This			

and Agenda Guidelines.

Board Operations

Deloitte.

Our 2019 Client Service Plan for the University of Minnesota

This presentation is intended solely for the information and use of management and the Board of Rege

April 25, 2019

The Board of Regents Audit and Compliance Committee University of Minnesota

Dear Members of the Board of Regents Audit & Compliance Committee:

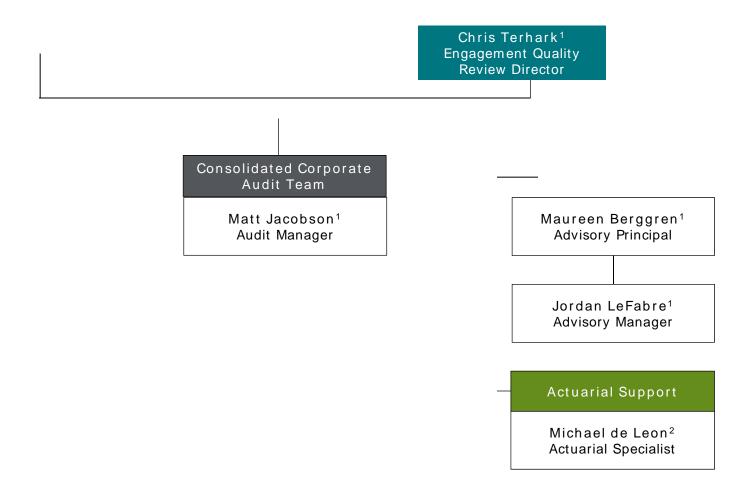
We are pleased to present Deloitte & Touche LLP's 2019 client service plan for the University of Minnesota (the "University"). First and foremost, we value our role as your independent auditor. We understand our responsibility to you as the Board of Regents chosen representative, and we have developed a plan that is specific, candid, and focused on two elements: providing a distinctive level of client service and delivering a high-quality audit effectively.

Our client service plan leverages a strategy that covers specific actions we will take to address and respond to the feedback the Audit and Compliance Committee and management have given us throughout the year and through our service quality assessment process. We understand your expectations for high-quality client service and attention, and our team is committed to delivering on those expectations.

Our audit plan reflects our commitment to providing you with high-quality, proactive service that is delivered with integrity, objec.7(bc1.d6W8vic1.d6WFJ62.9-

g to you, understanding your expectations, and

Engagement team



Scope of our audit

- Reports on financial statement audits:
 - University of Minnesota Consolidated Financial Statements

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The Deloitte way

Audit quality will always be essential. The audit should also anticipate the changes of an evolving, growing business and adapt continuously. A Deloitte audit does this by using advanced technology, design thinking, and multidisciplinary teams that include data and analytics specialists.

Complete the initial planning process

- Assess and respond to engagement risk
- Update our understanding of your business
- Update our understanding of your accounting process and internal controls
- Determine planning materiality

Report and assess our performance

• Perform subsequ0 643 subsequ0 62pen

Significant risks identified during our risk assessment procedures

As of the date of this report, we have identified certain significant risks, including fraud risks, during our risk assessment procedures. A significant risk is a risk of material misstatement of the financial statements that requires special audit consideration. The significant risks we have identified during our risk assessment procedures and our preliminary audit response, including the nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, are as follows:

We will separately communicate any significant changes to these significant risks during the course of our audit and the reasons for such changes, as necessary.

	Key areas of risk	Description of audit/ business risk	Deloitte's preliminary audit response
1	Valuation of		

Audit timeline

We will plan the performance of our audit in accordance with the following estimated timetable:

Activity		2019								
		М	J	J	Α	S	0	N	D	
University consolidated audit										
Audit planning and risk assessment										
Interim audit work										
Final audit work										
Conclude and report										
Compliance audits										
Planning and risk assessment										
Compliance requirements testing										
Conclude and report										
NCAA agreed-upon procedures										
Communication and coordination										

Uniform Grant Guidance procedures

To be a low risk auditee, for each of the two preceding audit periods:

- Uniform Grant Guidance audits performed & reports submitted to the Federal Audit Clearinghouse
- Unmodified opinions on financial statements and the Schedule of Expenditures of Federal Awards
- · No material weakness in internal control
- · No emphasis related to going concern
- No Type A programs with:
 - Material noncompliance with modified opinion
 - Material weaknesses in internal control
 - Known or likely questioned costs > 5% of program expenditures

The University continues to qualify as a low risk auditee.

Uniform Grant Guidance procedures (continued)

Major program risk assessments are required:

Type A Risk Assessment

- Audited as a major program at least once during most recent two audit periods
- In most recent audit period, no audit findings that are:
 - Material weakness in internal control
 - Modified opinion on the major program
 - Known or likely questioned costs> 5% of total awards expended for the program
 - Inherent risk is NOT a criteria that may be applied judgmentally by the auditor

Type B Risk Assessment

- Current and prior year experience, including
 - Weaknesses in internal controls
 - Prior audit findings
 - New or changed EDP systems
 - Programs not recent3D0 Tc11he acent au0æ8 -1.202s

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Uniform Grant Guidance procedures (continued)

Uniform Grant Guidance Report on the University of Minnesota's Schedule of Expenditures of Federal Awards for the year ended June 30, 2019

- Risk assessment procedures will be performed to determine those procedures identified as major
 - The Student Financial Assistance cluster will be identified as a major program
- Additional major programs will be identified as necessary in accordance with the guidance on federal compliance audits
- Testing of major programs will include testing of both compliance attributes and related internal controls
- Reports expected to be issued in November 2019
- Data Collection form expected to be filed in November 2019

Looking Forward: Preparing for the new lease accounting standard

Appendix - Deloitte resources available to the University

Deloitte resources available to the University

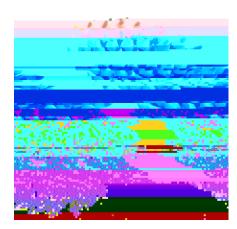
Events

- Audit Committee and Board Symposiums
- Board Governance Dialogues (local events)
- CFO Forums (local events)
- CFO Vision (two-day conference)
- Finance Leadership Programs (leadership, influence, and competency development)
- Next Generation Academies (CFO, CHRO, CIO, CLO, CMO, Tax Executives)



Eminence

- Audit Committee Resource Guide
- On the Board's Agenda
- Board Practices Report
- CFO Signals (quarterly survey)
- CFO Insights (bi-weekly series of perspectives on CFO issues)
- CFO Journal (WSJ site including Deloitte-sponsored content)
- CFO Lens (app featuring CFO-centric information)
- Controllership Insights
- Controllership Perspectives
- Risk & Compliance Journal (WSJ site)



Deloitte resources available to the University (Continued)

	Audit committee	Chief financial officer	Controller/ finance	General counsel/ legal	Тах	0 :	Audit/ SOX	H
Accounting & Financial Reporting Updates An annual publication highlighting the specialized accounting and reporting considerations applicable to companies in different industries.			•				•	
CFO Insights A biweekly publication dedicated to addressing the issues that CFOs and finance executives face today.		•	•				•	
Accounting Journal Entries A periodic publication that briefly summarizes the newest developments in US accounting standard setting, usually on the same day they occur.			•				•	
Accounting Roundup A monthly newsletter focused on recent activities of the accounting standard-setters and regulators, including the FASB, EITF, IASB, and SEC.			•				•	
Attorney Alerts Periodic communications highlighting topics of interest to members of the Office of the General Counsel.				•				
Audit Committee Brief A monthly publication for audit committee members that provides leading practices, an overview of corporate governance resources, a look at the regulatory and legislative environment, and links to relevant tools and resources.	•	•		•			•	
Dbriefs – Private Companies Biweekly webcast series featuring critical issues affecting private and middle-market companies.	•	•	•	•	•	•	•	•
Financial Reporting Alerts Periodic emails announcing important accounting and SEC developments that affect financial reporting and disclosure.			•				•	
Heads Up Periodic analysis of new or proposed accounting guidance that may have a significant impact on practice. Each edition provides a summary of a single issue and attempts to clarify that issue for readers with illustrative examples and Q&As.			•				•	4.0

Deloitte.

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Compliance Risk Reviews: Process Review

Boyd Kumher, Chief Compliance Officer Office of Institutional Compliance May 9, 2019



Compliance Risk Reviews (CRRs)

- Implemented July 2017
- Aligns with Federal Sentencing Guidelines
 - Risk identification and prioritization
 - Monitoring, auditing, and evaluating



CRR Process

Focuses on compliance with external and internal requirements

- Federal laws/regulations
- State statutes
- U of M policies



Outcomes Achieved



- Summary of the risk
- Opportunities for improvement
- Customer-developed action plan
- Review with the Executive Oversight and Compliance Committee
- Action items addressed

Safety of Minors - Example

Risk identification and prioritization

- 3 year cycle (high risk)
- > than 200 programs with minors across the system
- One external regulation for mandatory reporting
- Policies (Board of Regents and Administrative) 2013
 - Registration, reporting, background checks, health/safety
- Partners
 - Provost's Office, Office of Human Resources, and College of Education and Human Development

Safety of Minors - CRR

Topic researched (OIC)

Compliance Risk Areas	Related Governing Laws, Rules, Regulations, or University Policies
Mandatory reporting of a good faith belief that a minor is being physically or sexually abused or neglected	Minnesota Statute 626.556: Reporting of Maltreatment of Minors Board of Regents Policy: Safety of Minors Administrative Policy: Safety of Minors
Registration of events or programs intended for minors	Administrative Policy: Safety of Minors
Completion of a criminal background check for program staff, both upon hire or start of service and every three years thereafter	Board of Regents Policy: Safety of Minors Administrative Policy: Safety of Minors Administrative Policy: Background Checks and Verifications
Completion of a University-wide webbased trainQ 4wC 16 3.(and)]TJ ET Q q	



Safety of Minors - CRR

CRR tool created

- Overall compliance questions
- Cost of compliance
- Risk area specific

General compliance question(s)

- How is compliance with the policy monitored?
- What is the frequency of the monitoring?
- What are the typical noncompliance issues found and how are they corrected?

Mandatory reporting of a good faith belief that a minor is being physically or sexually abused or neglected

- Describe any mandatory reporting events since the last assessment period?
- What corrective measures were taken with the individual who failed to meet the specified reporting requirement?

Registration of events or program intended for minors

 How does verification occur to ensure that the registration site contains information on all programs for minors across the University system?



Safety of Minors - CRR



- CRR completed by partners
 - Collaborative
 - Meeting was held with the partners to review the CRR tool. The partners are provided with the opportunity to suggest revisions and additions to the tool.
 - Educational
 - The OIC gains knowledge about the specific risk review topic.
 - The partners gain knowledge about the elements of an effective compliance program, including their role in education and monitoring.

Safety of Minors – Opportunities



Safety of Minors – Action Plan

- Complete 6 site visits in 2018 calendar year
- Resources identified to conduct the first year site visits



Safety of Minors – Follow-up

Follow-up to Ensure Actions Taken

- OIC tracks open issues in database
- The partners presented their information to the EOCC
- OIC will use current CRR as baseline for next review cycle

Export Controls – Another Example

- 5 year cycle (medium risk)
- Several external governing regulations
- Administrative Policy: Export Controls 2012
 - Exports of hardware, software, commodities, technology, services, technical data
- Partner
 - Office of the Vice President for Research

Export Controls- CRR

Topic researched (OIC)

Compliance Risk Areas	Related Governing Laws, Rules, Regulations, or University Policies
Deemed Exports to non-US	Administrative Policy: Export Controls
persons	Export Administration Regulations (EAR) 15
	C.F.R. Pt. 730, et. seq.
	International Traffic in Arms Regulations
	(ITAR), 22 C.F.R. Pt. 120, et. seq.
Export of U S origin commercial or dual-	Administrative Policy: Export Controls
use items or technologies	Export Administration Regulations (EAR) 15
	C.F.R. Pt. 730, et. seq.
Export of U S origin defense	Administrative Policy: Export Controls
articles and service	International Traffic in Arms Regulations
	(ITAR), 22 C.F.R. Pt. 120, et. seq.
Export of U S origin items or technologies	Administrative Policy: Export Controls
to prohibited persons or destinations	Foreign Assets Control Regulations, 31
	C.F.R. Pt. 500, et. seq.
International Travel	Administrative Policy: Export Controls
	Export Admin Regs (EAR) 15 C.F.R. Pt. 730
	International Traffic in Arms Regs (ITAR), 22
	(see full list)

Export Controls - CRR

A. International Traffic in Arms Regulations

- Describe the process for ensuring that the "fundamental research" exclusion is maintained for research projects having potential military applications.
- Describe the training process for researchers that are



Export Controls - Opportunities

- Conduct an audit of shipments that do not go through the centralized External Sales process to assess risk
- Assess the risk of furnishing unauthorized online education to persons in sanctioned countries
- Build awareness and compliance with the U of M policy requiring pre-travel registration for travel abroad
- Work with GPS Alliance to increase awareness among employees on traveling with computer devices

Export Controls – Action Plan

- Audit of shipments
 - All shipments for destinations in comprehensively embargoed countries
 - Randomly select 50 package shipments to end users in 3 countries subject to heightened controls
 - Select 10-20 package shipments to determine if they fall in a category on the commerce control list or U.S Munitions List

Export Controls – Action Plan (cont.)

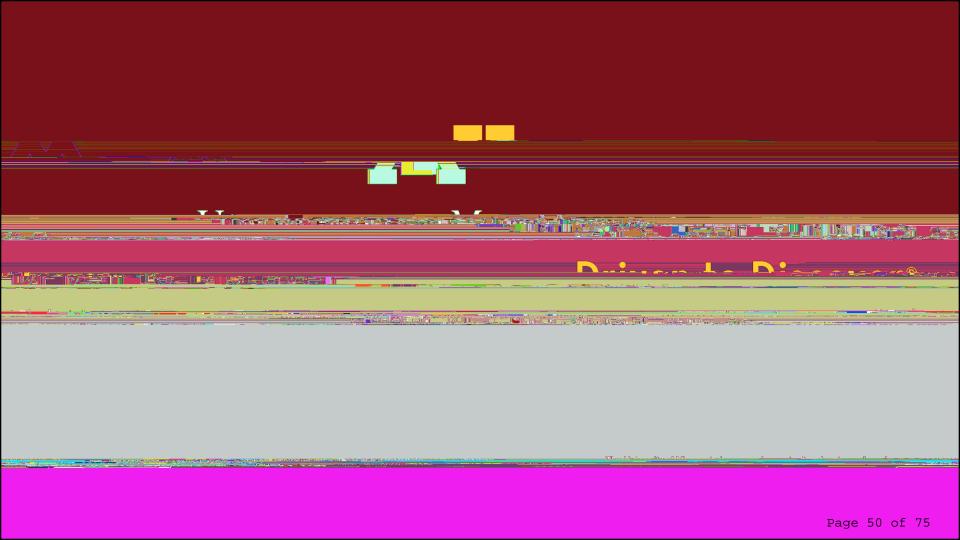
- Education on pre-registering
 - Remind members of the community through outreach presentations and when discussing international projects
 - Engage in a new education effort
 - Give specific guidance to units found to have inadequate compliance with registration requirement

Export Controls – Action Plan (cont.)

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Communication



Category Risk BOR Committee Time Horizon

Audit & Compliance Committee 2018-19 Work Plan

Date	Topics
2018	
September 13-14	2018-19 Committee Work Plan The committee will discuss the work plan agenda items for the 2018-19 meetings. National Audit Trends and Landscape in Higher Education Deloitte consultants will join the committee for a conversation about national trends in higher education. The item will include benchmarking with peer institutions. Overview of Audit Results: Trends & Opportunities The committee will review history and trends in Internal Audit findings. The item will provide the committee with a high-level overview of audit results, complementary to single audit reports and quarterly Internal Audit Updates.

2019	
February 7-8	I ´°¡ ® š ¨° ±Ÿ¥« ® ¯ &¡ ²¥ ³ ¸« ¢, « © ¬ ¨¡ °¡ Ÿ ° ±Ÿ¥° + « ®§ š ° Ÿ Ž¡ °°¡ ®° « ˙ Management The external auditors will share any recommendations regarding the statement/ reporting practices as a result of their audit. Update on the Remediation of Twin Cities Undergraduate Admissions Audit Findings This committee will discuss outstanding audit recommendations related to the audit issued in October 2017. [Institutional Risk Profile: Mitigation Plans]

 Information Items		
Gail Klatt, Chief Auditor		

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KUMD-FM (DEPARTMENT OF THE UNIVERSITY OF MINNESOTA) TABLE OF CONTENTS

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Independent Auditors Report

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To the Director
University of Minnesota Media Resources
KUMD FM
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of KUMD FM, a department of the

notes to the financial statements, which collectively comprise the Station as listed in the table of contents.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures

assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessme

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management

KUMD-FM (DEPARTMENT OF THE UNIVERSITY OF MINNESOTA) MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Condensed Statements of Net Position

	2018	2017	Change
Assets			
Current Assets	\$170,785	\$167,242	\$3,543
Capital Assets, Net	30,054	8,550	21,504
Total Assets	200,839	175,792	25,047
Deferred Outflows of Resources	-	-	-
Liabilities			
Current Liabilities	100,011	91,733	8,278
Noncurrent Liabilities	19,778	17,776	2,002
Total Liabilities	119,789	109,509	10,280
Deferred Inflows of Resources	-	-	-
Net Position			
Unrestricted	(31,609)	(36,789)	5,180
Restricted - Expendable	82,605	94,522	(11,917)
Net Investment in Capital Assets	30,054	8,550	21,504
Total Net Position	\$81,050	\$66,283	\$14,767

Assets

Current assets are used to support current operations and consist of cash and cash equivalents and accounts receivable. Noncurrent assets consist of capital assets, net of accumulated depreciation. Refer to Note 2 for additional information related to capital assets.

As of June 30, 2018, total assets increased \$25,047 from 2017 primarily due to an increase in capital assets.

Liabilities

Current liabilities are obligations that are expected to become due and payable during the next fiscal year. They consist of accounts payable and accrued liabilities for salaries payable and compensated absences. Noncurrent liabilities consist of compensated absences that are estimated to become due and payable over a period of time greater than one year.

As of June 30, 2018 total liabilities increased \$10,280 from 2017 primarily due to accounts payable.

Net Position

Unrestricted - Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital purposes.

Restricted - Expendable - Expendable assets are available for expenditure by the Station, but only in accordance with restrictions placed on their use by donors and other external entities.

Net Investment in Capital Assets -

BASIC FINANCIAL STATEMENTS

KUMD-FM (DEPARTMENT OF THE UNIVERSITY OF MINNESOTA) STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2018

Operating Revenues	
Corporation for Public Broadcasting Grants	\$ 146,488
State of Minnesota Grants	133,161
Underwriting	123,831
Listener Support	113,969
Student Service Fees	87,342
Other Revenue	7,371
Total Operating Revenue	612,162
Operating Expenses	
Programming and Production	481,810
Broadcasting	79,008
Management and General	207,574
Fundraising	91,369
Depreciation	 8,209
Total Operating Expenses	 867,970
Operating Loss	 (255,808)
Nonoperating Revenues	
University General Appropriation	78,261
Donated Facilities and Admin University Support	99,103
Donated Goods and Services - NFFS	17,418
Donated Goods and Services - Non NFFS	27,127
Other University Support	1,500
Total Nonoperating Revenues	223,409
Loss Before Other Revenues	(32,399)
Other Revenues	
Capital Grants & Gifts	47,166
Total Other Revenues	47,166
Increase in Net Position	14,767
Net Position at Beginning of Year	66,283
Net Position at End of Year	\$ 81,050

The accompanying notes are an integral part of these financial statements.

KUMD-FM (DEPARTMENT OF THE UNIVERSITY OF MINNESOTA) STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2018

The accompanying notes are an integral part of these financial statements.

KUMD-FM (DEPARTMENT OF THE UNIVERSITY OF MINNESOTA) STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2018

Reconciliation of Net Operating Income (Loss) to Net Cash Used By Operating Activities

Operating Loss \$ (255,808)

Adjustments to reconcile operating loss to net cash used by (1)78(e)-21()-15(o)34(p)34(e)-21(ra)-20(t)12(i

The accompanying notes are an integral part of these financial statements.

KUMD-

The estimated useful lives of the assets are as follows:

Nonoperating Revenues Revenues that represent nonexchange activities. The primary source of these revenues is appropriations from the University of Minnesota, and other

NOTE 5 - EMPLOYEE BENEFITS

The station is charged fringe benefits based on rates that are approved by the Department of Health and Human Services. The rates are calculated based on the University's salary base, actual costs and recoveries, and payments received in a prior year. The approved rates are charged to departments based on the salaries paid to employees by employee class / fringe group.